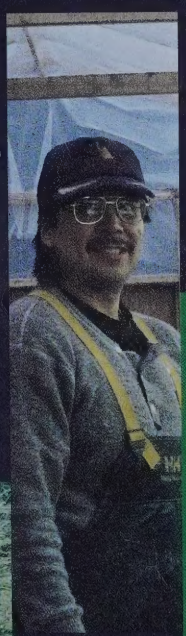
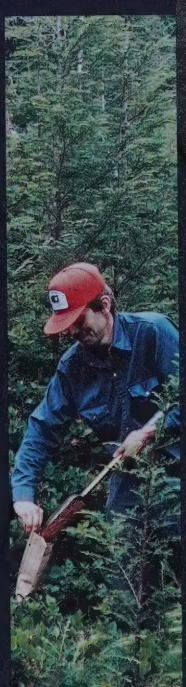
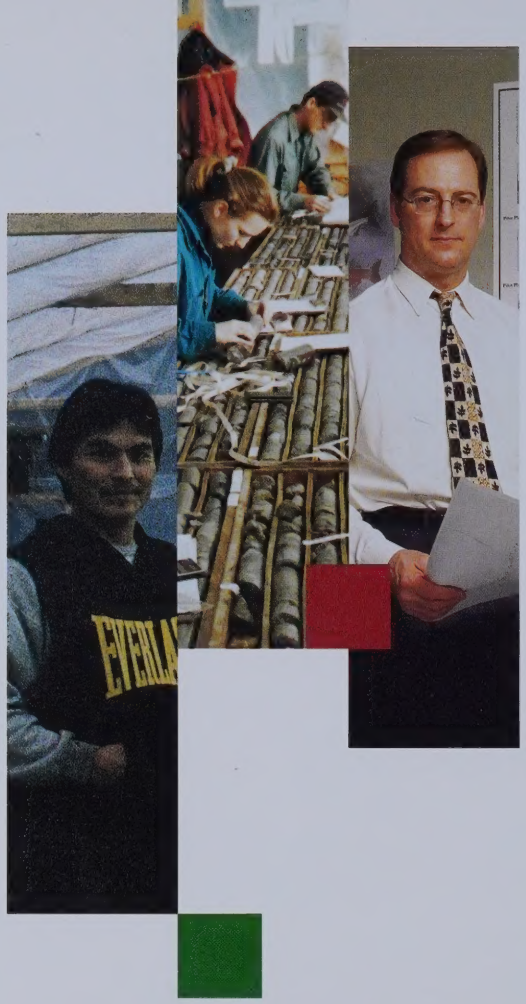
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MISTY'S MODERN MINING TEAM IS WORKING HARD TO MAKE THE GLOBALLY SIGNIFICANT HARMONY GOLD PROJECT A SHOWCASE OF ENVIRONMENTALLY RESPONSIBLE MINERAL RESOURCE DEVELOPMENT. ■ COMPREHENSIVE EXPLORATION AND PROJECT PLANNING ARE ONGOING. ■ SUCCESSFUL COMPLETION OF HARMONY GOLD PROJECT PREFEASIBILITY STUDIES IS EXPECTED TO LEAD TO AN APPLICATION FOR MINE DEVELOPMENT CERTIFICATION WHICH WILL INITIATE AN OPEN ENVIRONMENTAL REVIEW OF THE HARMONY PROJECT. ■ ITS SUCCESSFUL COMPLETION WOULD PROVIDE FOR THE PERMITTING OF A SIGNIFICANT AND SOUNDLY PLANNED MINE DEVELOPMENT THAT UTILIZES PROVEN MINING AND PROCESSING METHODS.







CORPORATE PROFILE

Misty Mountain Gold Limited is focused on the responsible exploration and development of its 100% owned Harmony Gold Property located on Graham Island, British Columbia. The extensive claim holding covers one of the world's premier epithermal gold systems including the Specogna Deposit which hosts a mineable resource of over 2.88 million ounces of gold.

Misty's skilled multi-disciplinary team is examining responsible mine development options for the Specogna Deposit and is pursuing exploration targets outside of the Specogna Deposit area. Continued successful results, and sound environmental stewardship will lead to the engineering and permitting of a substantial, long-life gold mine utilizing proven mining and gold extraction methods.

Common shares of Misty Mountain Gold Limited are quoted on NASDAQ (symbol MGLCF) and trade in Canada on the Vancouver and Toronto stock exchanges (symbol MGL).

1997 ACHIEVEMENTS

- Continued a wide spectrum of scoping studies to define Project options.
- Commenced environmental and baseline studies to ensure requirements of the Federal/Provincial project review processes will be met.
- Drilled four holes to test for additional gold deposits below the Specogna Deposit.
- Completed a $3.12 million flow-through Special Warrants financing for continued advancement of the Harmony Project.

1998 OBJECTIVES

- Complete metallurgical studies to determine an optimal gold recovery process for the Project.
- Complete scoping studies to determine all Project development options.
- Commence environmental and socio-economic studies with stakeholders and citizens of the region.
- Complete a comprehensive Harmony Gold Project Pre-feasibility Study.
- Pursue potential financial transaction strategies for continued Project development.

FORWARD LOOKING STATEMENTS

The U.S. securities laws provide a "safe harbour" for certain forward-looking statements. This annual report contains both historical information and forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those projected in such forward-looking statements. Examples of the latter include, without limitation, statements regarding potential mineralization, exploration results, and future plans and objectives of the Company, all of which involve risks and uncertainties. In accordance with the Private Securities Litigation Reform Act of 1995, the Company cautions that there can be no assurance that such statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements, given that resource development is inherently a high risk business. All written and oral forward-looking statements attributable to Misty Mountain Gold Limited or persons acting on its behalf are expressly qualified in their entirety by this notice.

INTRODUCTION

During 1997, Misty Mountain Gold Limited continued to advance its 100% owned Harmony Gold Project through exploration and pre-development expenditures totalling $3.28 million on exploration core drilling and a wide spectrum of scoping studies to define the Harmony Gold Project. Continuing positive program results will result in the advancement of a mine proposal for the Specogna Deposit which will mitigate environmental impacts and maximize benefits for communities in the region.

LOCATION AND INFRASTRUCTURE

The Harmony Gold Project is located on Graham Island, the northern main island of the Queen Charlotte Islands - Haida Gwaii, British Columbia. The Islands are 88 kilometres west of the mainland, 160 kilometres southwest of Prince Rupert, and 900 kilometres northwest of Vancouver.

The Specogna Deposit is located near the centre of Graham Island, 18 kilometres south of the town of Port Clements in an area of gently rolling hills at an elevation of 215 metres above sea level. Climate is typical of British Columbia's maritime areas with precipitation averaging 170 centimetres per year. Temperatures average 2°C for the coldest month and 14°C for the warmest month.

Graham Island is accessed by commercial ferries, barges and ships and there are daily commercial airline services. Access to the Specogna Deposit is by vehicle on existing industrial roads from the towns of Port Clements, Masset and Queen Charlotte City.

The Harmony Gold Property lies in an area of Crown land where extensive industrial forestry is ongoing.

SOCIO-ECONOMIC SETTING

The total population of the Queen Charlotte Islands is 6,000, of which approximately one-third are Haida First Nation people. The community of Masset, at the northern end of Graham Island is the largest town (1,500 people) and Queen Charlotte City (1,000 people) is the administrative centre. Port Clements (600 people), the closest town to the site, is predominantly a forestry town and the commercial airport is located at Sandspit (600 people).

Forestry is the main industry on the islands and the largest operators are MacMillan Bloedel (Graham Island) and TimberWest Forest Products (Moresby Island). Fishing is important to commercial and recreational operators and is a significant traditional activity of the Haida. Government and tourism services account for the other main business activities.

Both the forestry and fishing industries on Graham Island have declined and in 1996, the former largest employer on the Islands, the Canadian Department of Defense, closed down its operations.

EXPLORATION AND DEVELOPMENT

The mineral claims of the Harmony Gold Property encompass a 304 square kilometre area covering one of the world's premier epithermal gold systems. The Project includes the Specogna Deposit which is central to the property and contains a mineable resource of over 2.88 million ounces of gold.

Since the discovery of the Specogna Deposit in 1970 over $40 million was spent by former operators. Their work included trenching, drilling, underground bulk sampling, pilot mill testing, environmental programs and feasibility studies. This work led to a proposal in 1987 by City Resources (Canada) Limited to the British Columbia government to establish a 5,800 tonnes per day (2.1 million tonnes per year) processing facility involving pretreatment of 31 million tonnes of open pit ore by nitric acid leaching (Arseno Process) followed by cyanidation and production of gold bullion.

In 1988, although City Resources (Canada) Limited was in the final stages of project certification, it decided not to continue with its proposal for financial reasons. Permitting proceedings were suspended.

In 1993, Misty Mountain Gold Limited initiated further planning of the Project after examining its extensive database and determining that there is excellent potential for development of an economically and environmentally sound gold mine. In 1995, Romulus Resources Ltd., an affiliate of British Columbia based Hunter Dickinson Inc., joint ventured the Harmony Gold Project, and then merged with Misty Mountain Gold Limited. The merger brought together a multi-disciplinary team of professionals with an excellent record of environmentally responsible mine development under the direction of Hunter Dickinson Inc.

In 1995, Misty commenced a comprehensive, staged program to explore and develop the Project. This included a review of voluminous historical, technical and environmental data, and the completion of regionally extensive geochemical and airborne geophysical surveys. Late in 1995 Misty began a systematic diamond drilling program of the Specogna Deposit with core holes spaced on a 20 metre by 20 metre grid, bearing 135 degrees and drilled at an angle of minus 45 degrees. In December 1996 this program was completed with a total of 34,627 metres drilled in 147 holes. The database generated from this detailed drill program provides a solid foundation for continuing mine development studies.

During 1997, an additional four hole deep drilling program totalling 1,999 metres was completed, confirming thick intervals (up to 53 metres), of the primary gold hosting hydrothermal





breccia extending to a depth of 400 metres. The data from these holes is contributing to the three-dimensional geological modelling of this important epithermal gold system and will be used to plan further exploration.

An Induced Polarization (IP) survey has outlined a strong chargeability anomaly extending 900 metres north from the Specogna Deposit. This anomalous response displays similar characteristics to the IP response directly over the Specogna Deposit and has the potential to increase the current 2.88 million ounce mineable gold resource. Permitting for drilling this anomaly is in progress.

Current and historical drilling of the Specogna Deposit now totals 74,622 metres in 496 holes with 41,669 gold assays completed.

The Specogna Deposit represents the mid to upper levels of an epithermal hot-spring-type precious metals system. Gold is distributed throughout a hydrothermal breccia unit that parallels the northwest striking Sandspit Fault for at least 700 metres and also throughout stockwork quartz veining and pervasively silicified sediments which extend northeasterly from the hydrothermal breccia for up to 210 metres. The Deposit dips moderately northeast for over 300 metres and forms a mushroom-shaped cross section perpendicular to the Specogna Fault. Approximately three percent total sulphides, mainly pyrite and marcasite, are disseminated throughout the Deposit. In addition to the relatively evenly distributed gold, bonanza gold shoots are also developed throughout the deposit. Examples of these high grade shoots include drill intercepts of 42 metres, averaging 41 grams gold per tonne, and 46 metres averaging 40 grams gold per tonne.

A wide spectrum of technical scoping studies and investigations of environmental considerations are ongoing to provide a framework to finalize a comprehensive Specogna Deposit Scoping Study. These activities include socio-economic considerations, environmental analyses, deposit modelling, resource estimates, site facilities location, mine designs, infrastructure planning, mineralogy and metallurgical studies.

Conventional metallurgical processes including gravity recovery, flotation, biooxidation, tank leaching and heap leaching are being evaluated as part of the scoping programs.

A 1,700 kilogram bulk sample to test biooxidation of coarsely crushed material followed by simple heap leaching is proving that the Specogna Deposit is amenable to biooxidation. The biooxidation process is a viable, low-cost, environmentally sound, gold processing option for the Harmony Project.

Oxidation kinetics are rapid and high gold extractions have been achieved. The bulk sample tests underway include ten column charges of material crushed to 80% passing 3/8 inch. Based on results to date gold recoveries greater than 70% can be expected from biooxidation pretreatment followed by heap leaching.

The current mineable resource of the Specogna Deposit is at 2.88 million ounces of gold. Utilizing a 1.2 grams gold per tonne (0.035 oz/ton) cut-off, the open pit mine model has an overall waste to ore stripping ratio of 1.2 tonnes of waste to 1 tonne of ore and provides for processing of 33.5 million tonnes grading 2.11 grams gold per tonne (0.062 oz/ton) (2.27 million ounces of gold) followed by processing of 19.2 million tonnes of stockpiled material grading between 1.20-0.80 grams gold per tonne (0.035-0.023 oz/ton) (610,000 ounces) of gold. Mine designs also incorporate a phased mining plan that provides higher than average grades for processing during the initial years of operation; 2.64 grams gold per tonne (0.077 oz/ton) for years 1 through 5.

The Specogna Deposit's gold resources have now been accurately defined so that mine planning and scheduling can be optimized. In the next few months an optimal gold recovery process will be established. With these foundation blocks in hand, planning for mine permitting can commence.

Developing a mine to production is a carefully planned process in British Columbia. Mine development is regulated by the B.C. Environmental Assessment Act (BCEAA), as well as the Canadian Environmental Assessment Act (CEAA). In April 1997, the governments of British Columbia and Canada signed a cooperation agreement to facilitate harmonized federal/provincial environmental review processes. This review process provides for the independent, scientific and public review of any industrial project in British Columbia with the potential to affect the environment. All mine developments involve representatives of various federal and provincial government agencies, as well as representatives of local governments and First Nations to oversee the environmental assessment review.

Misty's objective is to soundly design the Harmony Gold Project so that it mitigates and manages all environmental and socio-economic impacts.

FINANCIAL REVIEW

During 1997, Misty expended $3.28 million (1996 - $5.84 million) on Harmony Gold Project exploration work and a net of $0.40 million (1996 - $0.55 million) on corporate operations, leaving a working capital deficiency of $1.68 million at year end.

Mindful of this deficiency and tempered by the goal to minimize dilution of shareholders' equity, Misty and its financial advisors are actively targeting sources of additional funding through alliances with financial, exploration and mining entities or other business and financial transactions which would generate sufficient resources to assure continuation of the Company's operations and exploration programs.

In August 1997, the Company completed a $3.12 million financing for 1,301,000 flow-through Special Warrants at a price of $2.40 per warrant. To December 31, 1997, $2.01 million was received or accrued, while the balance of $1.11 million in escrow is being released to Misty as the Company incurs qualifying flow-through exploration expenditures. Each flow-through Special Warrant is convertible into one flow-through common share on the earlier of, the issuance of prospectus receipts or as applicable under short hold annual information form regulations or August 1, 1998.

In conjunction with the flow-through financing, Misty also arranged a $2 million operating line of credit with the Canadian Imperial Bank of Commerce at prime plus 1/4%. A private company affiliated with one of the directors provided a fully collateralized guarantee to the bank respecting the operating line.

During 1997, Misty sold its investment in El Misti Gold Limited to the underlying option holders for total proceeds of $0.54 million and recorded a gain of $0.22 million.

Common shares of Misty Mountain Gold Limited are quoted on NASDAQ (symbol MGLCF) and trade in Canada on the Vancouver and Toronto stock exchanges (symbol MGL). New minimum compliance regulations have been promulgated by NASDAQ, one of which requires a minimum bid price of US$1.00 for a period of at least ten trading days. Ways of preserving this listing, instead of an over-the-counter listing in the United States, are being reviewed, in conjunction with alliances with financial, exploration and mining entities and other financial transactions.

At December 31, 1997, there were 9,561,989 shares issued. Outstanding were 1,539,100 share purchase options averaging $2.33 per share and 855,000 share purchase warrants at $2.50 per share.

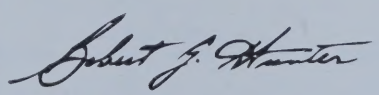
To December 31, 1997, Misty's cumulative expenditure on the Harmony Gold Project was $26.11 million of which $14.38 million was expended on acquisition costs and $11.73 million on exploration and development costs. Significantly, the Company has available tax pools in excess of $72 million which may be utilized to reduce future taxable income.

ACKNOWLEDGEMENTS

Misty's modern exploration and development team is dedicated to responsible mineral resource development. The ongoing successful advancement of the Harmony Gold Project is the result of the efforts of this dedicated team.

We wish to extend our sincere gratitude to all of Misty's valued shareholders for their continued support. We look forward to all shareholders and stakeholders participating in the rewards created from the very substantial gold resources being developed by Misty Mountain Gold Limited.

On Behalf of the Board



Robert G. Hunter

Chairman and Chief Executive Officer



Robert A. Dickinson

President and Chief Financial Officer



AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Misty Mountain Gold Limited as at December 31, 1997 and 1996 and the consolidated statements of operations and deficit, mineral property interests and cash flows for each of the years in the three year period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 1997 in accordance with generally accepted accounting principles in Canada. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis.

Significant differences between Canadian and United States generally accepted accounting principles are quantified and explained in note 10 to the financial statements.

KPMG

Chartered Accountants

Vancouver, Canada
March 20, 1998

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA-U.S. REPORTING DIFFERENCE

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the consolidated financial statements are affected by conditions that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the consolidated financial statements. Our report to the shareholders dated March 20, 1998 is expressed in accordance with Canadian reporting standards which do not permit a reference to such conditions in the auditors' report when these are adequately disclosed in the financial statements.

KPMG

Chartered Accountants

Vancouver, Canada
March 20, 1998

CONSOLIDATED BALANCE SHEETS

(Stated in Canadian dollars)	December 31 1997	1996
ASSETS		
Current assets		
Cash and cash equivalents	$ —	$ 371,737
Amounts receivable (note 7(c))	533,429	180,410
	533,429	552,147
Investments and reclamation deposits (note 4)	184,501	513,875
Land and equipment (note 5)	52,062	65,843
Mineral property interests (note 6) (see statement)	26,113,166	22,825,759
	$ 26,883,258	$ 23,957,624
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank operating loan (note 7(c))	$ 1,227,419	$ —
Accounts payable and accrued liabilities	990,138	1,093,017
	2,217,557	1,093,017
Shareholders' equity		
Share capital (note 7)	28,167,154	27,765,154
Special warrants (note 7(c))	1,794,554	—
Deficit	(5,296,007)	(4,900,547)
	24,665,701	22,864,607
Continuing operations (note 1)		
Commitment (note 7(c))		
	$ 26,883,258	$ 23,957,624

See accompanying notes to consolidated financial statements.

Approved by the Board

Robert G. Hunter
Director

Jeffrey R. Mason
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in Canadian dollars)	Years ended December 31 1997	1996	1995
Cash provided by (used for)			
Operations			
Loss for the year	$ (395,460)	$ (554,424)	$ (566,244)
Items not involving cash			
Amortization	13,282	16,594	10,198
Gain on sale of investment	(214,703)	—	—
Changes in non-cash operating working capital			
Amounts receivable	(353,019)	(41,919)	(75,881)
Accounts payable and accrued liabilities	(102,879)	674,228	365,825
	(1,052,779)	94,479	(266,102)
Investments			
Investments and reclamation deposits	544,077	(115,000)	(45,000)
Land and equipment	499	(1,739)	(90,896)
Mineral property interests acquisition costs			
Common shares issued	—	—	(163,625)
Cash	(5,000)	(451,834)	(5,000)
Exploration and development costs	(3,282,507)	(5,840,114)	(2,545,499)
Business combination, net of cash (note 3)	—	—	(13,995,630)
	(2,742,931)	(6,408,687)	(16,845,650)
Financing			
Issuance of common shares for			
Cash, net of share issue costs	402,000	6,494,641	411,267
Mineral property interests	—	—	163,625
Business combination (note 3)	—	—	14,000,000
Special warrants	1,794,554	(4,074,335)	4,074,335
	2,196,554	2,420,306	18,649,227
Cash, cash equivalents and bank operating loan			
Increase (decrease) during the year	(1,599,156)	(3,893,902)	1,537,475
Balance, beginning of year	371,737	4,265,639	2,728,164
Balance, end of year	$ (1,227,419)	$ 371,737	$ 4,265,639

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Stated in Canadian dollars)	Years ended December 31 1997	1996	1995
Revenue			
Interest	$ 7,395	$ 146,556	$ 127,942
Expenses			
Amortization	13,282	16,594	10,198
Conference and travel	79,024	36,198	50,777
Corporation capital tax	76,573	2,018	5,974
Interest and finance charges	64,188	—	—
Legal, accounting and audit	99,670	90,738	128,019
Office and administration	94,048	262,911	299,690
Shareholder communications	190,773	292,521	199,528
	617,558	700,980	694,186
Loss before the following	(610,163)	(554,424)	(566,244)
Gain on sale of investment (note 4(a))	214,703	—	—
Loss for the year	(395,460)	(554,424)	(566,244)
Deficit, beginning of year	(4,900,547)	(4,346,123)	(3,779,879)
Deficit, end of year	$ (5,296,007)	$ (4,900,547)	$ (4,346,123)
Loss per share	$ (0.04)	$ (0.06)	$ (0.12)
Weighted average number of common shares outstanding	9,555,955	8,755,049	4,863,903

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF MINERAL PROPERTY INTERESTS

(Stated in Canadian dollars)	Years ended December 31 1997	1996	1995
Acquisition costs			
Balance, beginning of year	$ 14,374,938	$ 13,923,104	$ 138,298
Incurred during the year	5,000	451,834	168,625
Mineral property interests acquired on business combination (note 3)	—	—	13,616,181
Balance, end of year	14,379,938	14,374,938	13,923,104
Exploration and development costs			
Assays and analyses	184,764	568,520	253,967
Drilling	290,832	2,753,523	621,037
Engineering	1,002,188	267,428	—
Environmental and socioeconomic	364,837	441,593	93,364
Equipment rentals and leases	124,570	166,537	205,627
Geological	751,665	462,510	1,005,034
Property fees and assessments	116,929	30,821	51,454
Site activities	323,825	910,214	176,533
Transportation	122,897	238,968	138,483
Incurred during the year	3,282,507	5,840,114	2,545,499
Balance, beginning of year	8,450,821	2,610,707	65,208
Balance, end of year	11,733,328	8,450,821	2,610,707
Mineral property interests	$ 26,113,266	$ 22,825,759	$ 16,533,811

See accompanying notes to consolidated financial statements.

1. CONTINUING OPERATIONS

Misty Mountain Gold Limited (the "Company") is incorporated under the Company Act (British Columbia) and its principal business activity is the exploration and development of mineral properties, with its principal mineral property interest comprising mineral claims on Graham Island, British Columbia (the "Harmony Gold Property") (note 6).

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economic to produce. The Company's continuing operations and the underlying value and recoverability of the amounts shown for mineral property interests are entirely dependent upon the existence of economic mineral reserves, the ability of the Company to obtain the necessary financing to complete the development of the mineral properties, and upon future profitable production or proceeds from the disposition of the mineral property interests.

At December 31, 1997, the Company had a working capital deficiency of approximately $1,684,000 which working capital is insufficient to meet the Company's objectives as presently planned. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of presentation**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles which, except as disclosed in note 10, are also in accordance in all material respects with those in the United States.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Romulus Resources Ltd. ("Romulus"), which was wound up during fiscal 1996 and CRC Finance Corp. All significant intercompany balances and transactions have been eliminated.

Effective November 6, 1995, the Company completed the acquisition of 100% of the outstanding common shares of Romulus. As Romulus shareholders obtained control of the Company through the exchange of their shares of Romulus, the acquisition of Romulus has been accounted for as a reverse takeover. Consequently, the consolidated statements of operations and deficit and cash flows reflect the results from operations and cash flows of Romulus, the legal subsidiary, for the year ended December 31, 1995, combined with those of Misty Mountain Gold Limited, the legal parent, from November 6, 1995, in accordance with generally accepted accounting principles for reverse takeovers.

In these consolidated financial statements, the corporate entity Misty Mountain Gold Limited, prior to the business combination, is referred to as "Old Misty" and after completion of the share consolidation (note 7) and business combination (note 3), is referred to as "New Misty".

(b) **Cash and cash equivalents**

Cash and cash equivalents consist of highly liquid investments that are readily convertible to known amounts of cash and generally have maturity values of three months or less.

(c) **Investments and reclamation deposits**

Investments capable of reasonably prompt liquidation are carried at the lower of cost and quoted market value. Investments where the Company has the ability to exercise significant influence are accounted for on the equity basis where the investment is initially recorded at cost and subsequently adjusted for the Company's share of the income or loss and capital transactions of the investee, less provision, if any, for permanent impairment in value. Reclamation deposits are recorded at cost.

(d) **Land and equipment**

Land is recorded at cost. Equipment is recorded at cost less accumulated amortization. Amortization is provided using the declining balance method at annual rates of between 20% and 30%, which reflect the estimated useful lives of the equipment.

(e) **Mineral property interests**

Mineral property interests acquisition costs and related exploration and development costs incurred on the property are deferred until the property to which they relate is placed into production, sold, allowed to lapse or abandoned. These costs will be amortized over the estimated life of the property following commencement of commercial production or written off if the property is sold, allowed to lapse or abandoned.

Mineral property acquisition costs include the cash consideration and the fair market value of common shares, based on the trading price of the shares, issued for mineral property interests pursuant to the terms of the agreement. A property acquired under an option or joint venture, where payments are made at the sole discretion of the Company, is recorded in the accounts at the time of payment. The amount shown for mineral property interests represents costs incurred to date and does not necessarily reflect present or future values.

Administrative expenditures are expensed in the period incurred.

(f) **Share capital**

Common shares issued for non-monetary consideration are recorded at the fair market value based upon the trading price of the shares on the date of the agreement to issue the shares.

The proceeds from common shares issued pursuant to flow-through share financing agreements are credited to share capital and the tax benefits of these exploration expenditures are transferred to the purchaser of the shares.

Costs incurred to issue common shares are deducted from share capital.

(g) **Loss per share**

Loss per share has been calculated using the weighted average number of common shares outstanding during the year, after restating the 1995 comparative amounts to reflect the weighted average number of common shares outstanding as if the exchange of Romulus shares into shares of Old Misty (note 3) took place on inception. Fully diluted loss per share has not been presented as the effect on basic loss per share would be anti-dilutive for all years.

(h) **Use of estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets, reclamation obligations and rates for amortization. Actual results could differ from those estimates.

(i) **Fair value of financial instruments**

The carrying amount of cash and cash equivalents, amounts receivable, investments and reclamation deposits (note 4), bank operating loan and accounts payable and accrued liabilities approximate fair value due to the short term to maturity of such instruments.

(j) **Comparative figures**

Certain of the prior years' comparative figures have been reclassified to conform to the presentation adopted for the current year.

3. BUSINESS COMBINATION

Effective November 6, 1995, Old Misty and Romulus received all of the necessary approvals to complete its agreements to merge. The Company issued 4,343,158 post-consolidation common shares in consideration for all of the issued and outstanding common shares of Romulus on the basis of 0.425 post-consolidation common shares of the Company for each common share of Romulus (note 7(b)). As the former shareholders of Romulus obtained control of the Company through the share exchange, this transaction has been accounted for as a reverse takeover and the purchase method of accounting has been applied. Under reverse takeover accounting, Romulus is considered to have acquired Old Misty with the results of Old Misty's operations included in the consolidated financial statements from the date of acquisition. Romulus is considered the continuing entity.

The acquisition has been recorded at the estimated fair value of the consideration given which, under reverse takeover accounting, is the fair value of the total number of shares of Romulus that would have had to be issued in order to provide the same percentage of ownership of the combined company to the shareholders of Old Misty as they have in the combined company as a result of the reverse takeover. The acquisition details are as follows:

Net assets acquired, at fair values	
Cash	$ 4,370
Net working capital	30,074
Investments and reclamation deposits	349,375
Mineral property interests	13,616,181
	$ 14,000,000
Consideration given for net assets acquired	
Common shares issued	$ 14,000,000

As the continuing entity is deemed to be Romulus, share capital of Old Misty totalling $54,316,237 has been eliminated as a result of accounting for this combination as a reverse takeover (note 7(b)).

The consolidated statements of operations and deficit and cash flows reflect the results of operations and cash flows of Romulus, the legal subsidiary, for the years ended December 31, 1995, onwards, combined with those of New Misty, the legal parent, from November 6, 1995, being the effective date of the acquisition.

Under reverse takeover accounting principles and the purchase method of accounting, the results of operations of Old Misty are included in the consolidated financial statements of the Company only from the effective date of the acquisition. Accordingly, supplementary financial information presenting the results of operations and cash flows of Old Misty for the period from July 1, 1995, being the date following the most recent audited balance sheet of Old Misty, to November 6, 1995, being immediately prior to the effective date of the combination, is presented below.

(a) **Consolidated Statement of Operations**

	Period from July 1, 1995 to November 6, 1995
Interest revenue	$ 3,221
Expenses	
Amortization	6,718
Conference and travel	14,306
Legal, accounting and audit	135,704
Office and administration	15,373
Salaries and benefits	31,061
Shareholder communication	51,793
Trust and filing	26,409
	281,364
Loss for the period	$ (278,143)

(b) **Consolidated Statement of Cash Flows**

	Period from July 1, 1995 to November 6, 1995
Cash provided by (used for)	
Operations	
Loss for the period	$ (278,143)
Amortization, an item not involving cash	6,718
Changes in non-cash operating working capital	
Amounts receivable	(16,633)
Accounts payable and accrued liabilities	(156,128)
	(444,186)
Financing	
Common shares issued for cash, net of issue costs	328,494
Investments	
Investments and reclamation deposits	24,804
Mineral property interests	5,445
	30,249
Decrease in cash and cash equivalents	(85,443)
Cash and cash equivalents, beginning of period	89,813
Cash and cash equivalents, end of period	$ 4,370

(c) **Consolidated Schedule of Mineral Property Interests**

	Period from July 1, 1995 to November 6, 1995
Exploration and development costs (recoveries)	
Geological and geophysical	$ (6,784)
Graphics	588
Travel and accommodation	751
Net recoveries for the period	$ (5,445)

4. INVESTMENTS AND RECLAMATION DEPOSITS

	1997	*1996*
Investment in El Misti Gold Limited (a)	$ —	$ 329,374
Reclamation deposits	184,500	184,500
Other investments	1	1
Investments and reclamation deposits	$ 184,501	$ 513,875

(a) **Investment in El Misti Gold Limited**

During 1995, Old Misty made advances and incurred expenditures totalling $329,374 with respect to the acquisition of and exploration on certain mineral properties located in Peru (the "Peruvian Properties"). In May 1995, Old Misty determined that it would not fund additional expenditures on the Peruvian Properties and as a result, Old Misty's President agreed to assume responsibility to arrange funding for the Peruvian Properties from sources other than Old Misty and that the amounts paid or advanced on behalf of the Peruvian operations will be treated as share capital of a new company.

Pursuant to an assignment agreement dated September 30, 1995, Old Misty transferred its rights to the Peruvian Properties to El Misti Gold Ltd. in exchange for 1,317,500 common shares of El Misti Gold Ltd. at an agreed price of $0.25 per share and a 1% net smelter returns royalty, to a maximum of $2 million, from revenues earned from the Peruvian Properties. In addition, Old Misty granted an option to certain affiliates of Old Misty's President and Chairman, who continue to be directors of the Company, to purchase the shares of El Misti Gold Ltd. held by the Company at a price of $0.375 per share until October 30, 1997.

On June 3, 1996, Consolidated Minerva Gold Mines Ltd. ("Minerva") acquired El Misti Gold Ltd., and Minerva shareholders approved a name change to El Misti Gold Limited. As part of this transaction, the Company's previous share position of 1,317,500 common shares in El Misti Gold Ltd. was exchanged for 1,088,153 common shares of El Misti Gold Limited. In addition, the option price was changed to $0.50 per share on the exchange of the shares to El Misti Gold Limited. At December 31, 1996, the quoted market value of the shares of El Misti Gold Limited held by the Company was approximately $4.75 per share.

During 1997, the option to purchase the Company's shares of El Misti Gold Limited was exercised by the option holders which resulted in the Company receiving proceeds of $544,077 and recording a gain on sale of investment of $214,703.

5. LAND AND EQUIPMENT

	Cost	*Accumulated Amortization*	*Net Book Value 1997*	*1996*
Land	$ 8,488	$ —	$ 8,488	$ 8,488
Automotive equipment	15,032	7,235	7,797	12,634
Site equipment	62,780	27,003	35,777	44,721
Land and equipment	$ 86,300	$ 34,238	$ 52,062	$ 65,843

The original cost of land and equipment in 1996 was $92,636.

6. MINERAL PROPERTY INTERESTS

	1997	*1996*
Harmony Gold Property	$26,113,266	$22,825,759

Harmony Gold Property

The Harmony Gold Property (the "Property") is located in the Skeena Mining Division on Graham Island, Queen Charlotte Islands - Haida Gwaii, British Columbia. The Company's initial 100% interest in the Property was acquired by Old Misty in 1977 for $450,000 cash and 300,000 shares of the Company.

During 1979, Old Misty sold a 50% interest in the Property which it subsequently reacquired in 1987 for total costs of $5,400,000, the issue of 1,500,000 common shares of the Company, and a third party net smelter returns royalty graduated from 0.5% to 5% covering a gold price range from U.S. $300 to U.S. $800 per ounce.

In 1990 and 1991, project plans were considered by management at that time, but as a result of the then current economic conditions and the results of an evaluation of the project plans, the Company elected not to proceed with further development at that time, and reclamation and clean-up work of the site was undertaken. Old Misty, accordingly, wrote down its accumulated acquisition costs and deferred exploration and development costs incurred on the Property by approximately $30,300,000 to $1,000 in 1991 and expensed the minimal costs incurred thereafter.

During 1993 and 1994, a group of investors reviewed technical information on the Property and concluded that, with a modern exploration and mining approach, combined with a restructuring of Old Misty's debt and capital structure, it could be possible to economically develop the Property. Accordingly, Old Misty recommenced deferring exploration and development costs incurred during that period.

In November 1994, Old Misty granted Romulus an option to earn up to a 50% interest in the Property by acting as operator, making certain option payments and expending up to $15 million on exploration and development costs on the Property prior to June 30, 2006. To November 6, 1995, being the effective date of the business combination of Old Misty and Romulus (note 3), Romulus incurred approximately $2 million in exploration and development costs, and acquired additional claims in the region by staking, acquisition through the issuance of 100,000 common shares of Romulus, and entering into an option agreement.

During 1996, the Company purchased the third party net smelter returns royalty on the Property for $450,000. The Company continues to maintain all claims and agreements in good standing.

7. SHARE CAPITAL

(a) **Authorized**

The Company's authorized share capital consists of 100,000,000 common shares without par value.

During 1995, Old Misty consolidated its authorized share capital on a 10 old for 1 new basis and subsequently increased its authorized share capital from 10,000,000 common shares without par value to 100,000,000 common shares without par value.

(b) **Issued and outstanding**

A continuity of the Company's issued and outstanding share capital, commencing with Romulus from incorporation on July 9, 1969, to November 6, 1995, being the effective date of the reverse takeover, is as follows:

	Number of shares	*Amount*
Romulus		
Issued during		
1969 to 1972 Cash	1,171,302	$ 143,196
1969 to 1972 Mineral property interests	750,000	75,000
1973 Cash	174,900	43,725
1974 Cash	88,100	17,590
1981 Cancellation of escrow shares	(750,000)	—
	1,434,302	279,511
Consolidation of shares on a six old for one new basis	(1,195,252)	—

	Number of shares	Amount
Romulus balance, December 31, 1981	239,050	279,511
Issued during		
1988 Cash	1,250,000	82,500
1988 Settlement of debts	1,297,000	324,250
1989 Cash	148,000	40,200
1990 Cash, net of share issue costs	892,000	495,363
1990 Mineral property interests	150,000	87,500
1991 Settlement of debts	929,634	148,045
1992 Cash	845,000	829,000
1992 Mineral property interests	50,000	62,500
1993 Cash	1,056,000	1,056,000
1993 Finders' fees	47,342	47,307
1993 Mineral property interests	50,000	50,000
1994 Cash, net of share issue costs	2,731,000	2,951,750
1994 Mineral property interests	150,000	150,000
1994 Finders' fees	65,342	91,695
Romulus balance, December 31, 1994	9,900,368(i)	6,695,621
Issued during the period January 1 to November 6, 1995, for		
Cash on exercise of share purchase options	10,000	17,500
Cash on exercise of share purchase warrants	258,600	389,067
Mineral property interests	50,000	85,000
Romulus balance, November 6, 1995, prior to the arrangement with Old Misty	10,218,968	7,187,188
Exchanged into post-consolidation Misty common shares at 0.425 shares for each Romulus share (note 3)	(5,875,810)	—
Old Misty shares held by Romulus shareholders, at time of business combination (note 3)	4,343,158	$ 7,187,188

(i) Equivalent to 4,207,656 Old Misty shares after business combination

	Number of shares	Amount
Old Misty		
Old Misty balance, June 30, 1995	32,395,693	$61,174,931
Issued during the period July 1 to November 6, 1995, for		
Cash, net of share issue costs	1,000,000	328,494
Consolidation of shares on a 10 old for 1 new basis	(30,056,124)	—
Old Misty balance, November 6, 1995, prior to arrangement with Romulus	3,339,569	61,503,425
Adjustment to record business combination		
Reduction in the book value of Old Misty's share capital to that of Romulus (note 3)	—	(54,316,237)
	3,339,569	7,187,188
Shares of New Misty issued to acquire shares of Romulus (above), recorded at fair value (note 3)	4,343,158	14,000,000
New Misty balance November 6, 1995, after business combination	7,682,727	21,187,188
Issued during the period November 7 to December 31, 1995 for		
Cash on exercise of share purchase options	10,000	4,700
Mineral property interests	21,250	78,625
New Misty balance, December 31, 1995	7,713,977	21,270,513
Issued during 1996 for		
Cash on exercise of share purchase options	451,612	1,621,634
Cash by way of private placement at $4.00, net of issue costs	1,053,325	3,990,707
Cash on exercise of share purchase warrants	220,575	882,300
New Misty balance, December 31, 1996	9,439,489	27,765,154
Issued during 1997 for		
Cash on exercise of share purchase options	110,000	352,000
Cash on exercise of share purchase warrants	12,500	50,000
New Misty balance, December 31, 1997	9,561,989	$28,167,154

(c) **Special warrants**

On August 1, 1997, the Company completed a financing of 1,301,000 flow-through special warrants at $2.40, which are convertible on a one for one basis into flow-through common shares of the Company, for gross proceeds of $3,122,400. Under the original terms of issuance, the special warrants will be automatically converted on the earlier of the third day after the issuance of prospectus receipts by the applicable regulatory authorities or the first business day after the first anniversary of issuance of the flow-through special warrants. The Company anticipates entering into amending agreements whereby 251,000 special warrants will be exercised and converted into shares in May 1998 pursuant to the short hold annual information filing form adopted by the British Columbia Securities Commission in January 1998. Of the 1,301,000 flow-through special warrants, 251,000 were funded on closing and 1,050,000 will be funded as the Company incurs qualifying flow-through exploration expenditures. With respect to these 1,050,000 special warrants, the Company had received $958,307 to December 31, 1997, and accrued $451,693 in amounts receivable, based on qualifying expenditures incurred to December 31, 1997. The balance of the proceeds of $1,110,000 are held in escrow and will be released to the Company as the Company incurs qualifying flow-through exploration expenditures prior to December 31, 1998. This amount has not been accrued in the accounts as receipt is contingent upon the Company incurring qualifying exploration expenditures. With respect to the 251,000 special warrants funded on closing, the Company must incur $602,400 of qualifying flow-through exploration expenditures, in addition to the $1,110,000 referred to above.

Yorkton Securities Inc. ("Yorkton") acted as agent for the financing and will receive up to 130,100 shares. The Company also incurred $217,846 of share issue costs, including a commission to Yorkton.

In conjunction with the special warrants financing described above, the Company has arranged a $2 million bank operating line of credit with a Canadian chartered bank at an interest rate of prime plus 1/4%, with no fixed repayment terms. A private company affiliated with one of the directors has provided a fully collateralized guarantee until July 25, 1998, to the bank respecting the operating loan, and in consideration for this, the Company will issue 95,600 guarantor's shares with a deemed value of $2.40 per share, to be issued on regulatory and shareholder acceptance.

(d) **Share purchase options**

Share purchase options outstanding at December 31, 1997, are as follows:

Expiry date	*Number of shares*	*Price per share*
May 14, 1999	35,000	$ 4.00
September 30, 1999	1,044,100	$ 2.25
February 3, 2001	120,000	$ 2.25
February 3, 2001	40,000	$ 4.00
August 22, 2002	300,000	$ 2.23
Total share purchase options	1,539,100	

During 1997, 110,000 share purchase options that were outstanding at December 31, 1996, were exercised at $3.20 per share to acquire 110,000 common shares. All remaining share purchase options outstanding at December 31, 1996, expired unexercised or were cancelled during the year. All options outstanding at year end were granted during the year. Subsequent to December 31, 1997, the exercise price of the share purchase options expiring August 22, 2002, was changed from $2.23 to $0.85, subject to shareholder approval.

(e) **Share purchase warrants**

At December 31, 1997, there were 855,000 share purchase warrants outstanding that are exercisable at $2.50 per share, expiring December 15, 1998, that were also outstanding at December 31, 1996.

During 1997, the Company issued 12,500 common shares on the exercise of 12,500 warrants at $4.00 per share.

8. RELATED PARTY TRANSACTIONS

	Years ended December 31, 1997	1996	1995
Services rendered by			
Hunter Dickinson Inc.(a)	$1,086,124	$ —	$ —
Great Basin Gold Ltd.(b)	$ 36,342	$1,085,452	$ 888,156

	1997	*1996*
Balances payable (c)		
Hunter Dickinson Inc.	$ 898,991	$ —
Great Basin Gold Ltd.	$ —	$ 160,854

(a) Hunter Dickinson Inc. is a private company with certain common directors that provides geological, corporate development, administrative and management services to the Company on a cost recovery basis pursuant to an agreement dated December 31, 1996.

(b) Great Basin Gold Ltd. (formerly Pacific Sentinel Gold Corp.) is a public company with certain common directors that provided management, geological, technical and administrative services to the Company on a cost recovery basis prior to the Company's agreement with Hunter Dickinson Inc.

(c) Balances payable are included in accounts payable and accrued liabilities on the consolidated balance sheets. These amounts are non-interest bearing and due on demand.

(d) Bank operating loan (see note 7(c)).

9. INCOME TAXES

To December 31, 1997, the Company has available tax pools and operating losses for tax purposes in excess of $72,000,000 which may be carried forward and utilized to reduce future taxable income generated from the Harmony Gold Property. The potential income tax benefits related to these items have not been reflected in the accounts. These amounts do not include certain of the Company's exploration and development expenditures renounced to investors under flow-through share financing arrangements.

10. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

As disclosed in note 2(a), these financial statements have been prepared in accordance with Canadian generally accepted accounting principles which conform in all material respects with those of the United States, except for accounting for income taxes and disclosure in the statements of cash flows.

Under the asset and liability method of United States Statement of Financial Accounting Standards No. 109 ("SFAS 109"), deferred income tax assets and liabilities are measured using enacted tax rates for the future income tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. There is no effect of adopting the provisions of SFAS 109 on the Company's financial statements as the recognition criteria for deferred tax assets has not been met.

Under Canadian generally accepted accounting principles, non-cash transactions are included in the determination of financing and investing activities in the statements of cash flows. Generally accepted accounting principles in the United States require exclusion of such activities from the determination of financing and investing activities and require the cash amount of interest and income taxes paid to be disclosed in the statement. As a result, under United States generally accepted accounting principles, the values attributable to shares issued for mineral property interests and the business combination would be excluded from financing and investing activities in the statement. In addition, the Company paid interest of $64,188 during the year ended December 31, 1997; 1996 – nil; 1995 – nil; and no income taxes were paid during the years ended December 31, 1997, 1996 and 1995.

Statement of Financial Accounting Standards 123, Accounting for Stock-Based Compensation, was issued by the Financial Accounting Standards Board in 1995 and was effective for the Company's 1996 fiscal year. The statement requires that stock-based compensation be accounted for based on a fair value methodology, although it allows the effects to be disclosed in the notes to the financial statements rather than in the statement of operations. The statement also allows an entity to continue to measure compensation costs for stock-based compensation plans using the intrinsic value based method of accounting as prescribed by APB Option No. 25. The Company has elected to measure compensation cost for those plans using this method.

CORPORATE INFORMATION

OFFICERS

Robert G. Hunter
Chairman and CEO

Raymond J. Soper
Vice-Chairman

Robert A. Dickinson
President and CFO

Jeffrey R. Mason
Secretary and Treasurer

DIRECTORS

David J. Copeland
Scott D. Cousens
Robert A. Dickinson
Robert G. Hunter
Jeffrey R. Mason
Robin A. Slaughter
Raymond J. Soper
Ronald W. Thiessen

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Canadian Imperial Bank of Commerce
400 Burrard Street
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Canada V6C 3A6

LISTED

The Toronto Stock Exchange (MGL)
Vancouver Stock Exchange (MGL)
NASDAQ (MGLCF)

CAPITALIZATION

(as of April 30, 1998)

Common Authorized	100,000,000
Issued Shares	9,561,989
Fully Diluted	13,427,129

ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders of Misty Mountain Gold Limited will be held at 2:00 pm on June 23, 1998, Suite 930 – 800 West Pender Street, Vancouver, British Columbia V6C 2V6.

INVESTOR SERVICES

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